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Internal audit and oversight

Internal audit and oversight*

Report of the Administrator

Summary

The present report is submitted pursuant to the arrangements agreed upon by the Executive Board. The report provides details of internal audit and oversight services provided by the UNDP Office of Audit and Performance Review for the year ended 31 December 2003.

Elements of a decision

The Executive Board may wish to: (a) take note of the report of the Administrator on internal audit and oversight services (DP/2004/27); (b) express support for the continued strengthening and reorganization of the internal audit and oversight resources of the United Nations Development Programme.

* The collection of data required to present the Executive Board with the most current information has delayed submission of the present document.

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Introduction

1. The Administrator is pleased to provide the Executive Board with his annual report on internal audit and oversight services provided by the UNDP Office of Audit and Performance Review (OAPR) for the year ended 31 December 2003.

2. During 2003, OAPR provided internal audit and oversight services to UNDP and to the United Nations Office for Project Services (UNOPS). Chapter II and annex I of the report relate to both organizations. Detailed discussions of the internal audit and oversight activities carried out on behalf of UNOPS are included in separate reports, which are being submitted to the Executive Board at its present session by the Executive Director, UNOPS, in document DP/2004/28.

I. Developments in the UNDP oversight and accountability framework

3. In addition to OAPR, the main organizational instruments of the oversight and accountability framework are the Management Review and Oversight Committee and the Oversight Group. The Office of Legal and Procurement Support (OLPS) also plays a key role with respect to administration of the internal justice system.

4. The status of the internal justice system, the Fraud Prevention Committee and the two main oversight mechanisms in UNDP, the Management Review and Oversight Committee and the Oversight Group, is summarized below.

Improvements in the internal justice system

5. In 2003, a new policy was approved covering disciplinary procedures and setting out the rights and obligations of staff and the administration in the investigation and processing of disciplinary cases. Also in 2003, OAPR prepared a set of investigation guidelines to strengthen the quality of UNDP investigations – specifically to ensure that they are carried out in a manner that is fully consistent with the principles laid down in the policy and to provide technical guidance to investigators on procedures for data collection and documentation of evidence.

Establishment of Fraud Prevention Committee

6. In support of the United Nations initiative and in cooperation with UNFPA and UNOPS, UNDP established a fraud prevention committee in 2002. The committee, chaired by the Director, OAPR, prepared a fraud policy statement, which will be issued by the Administrator in 2004.

Oversight Group

7. In 2000, the Administrator introduced a mechanism, referred to as the Oversight Group, to maximize and coordinate the distinctive oversight roles of the Operations Support Group (OSG) and the Evaluation Office with the role of OAPR. The three units comprising this group continue to coordinate their work to strengthen links between the various oversight tools. A key output of the group, since 2001, has been an analysis of country office performance, drawing on the results of oversight activities in each of the three units. This analysis is intended to supplement the Balanced Scorecard, the UNDP corporate tool for tracking key indicators of performance, which is also used in the performance assessment of senior managers.

8. In early 2004, the Administrator decided to reorganize the Oversight Group to ensure that issues arising from oversight activities receive prompt attention at the senior management level. Accordingly, the two oversight units – Evaluation Office and OAPR – will meet on a monthly basis with the Associate Administrator, the Director, OSG, and other key units as appropriate to report on key issues and lessons learned, and discuss recommendations for follow-up. In addition, the Associate Administrator recently requested OAPR to maintain a list of significant issues arising from audits, and to draft guidance notes addressing these issues for periodic presentation to the Executive Team and dissemination to country offices.

Management Review and Oversight Committee

9. The Management Review and Oversight Committee (MROC) has been established to assure the Administrator that the UNDP accountability framework is operating effectively. Chaired by the Associate Administrator, the membership includes the Under-Secretary-General, Office of Internal Oversight Services, the Assistant Administrator and Director, Bureau of Management, the Director, Office of Legal and Procurement Support, the Director, Office of Finance and Administration, the heads of the Oversight Group, and representatives of the regional bureaux. The Committee last met in November 2002 to review the results of the OAPR repositioning exercise. It did not meet in 2003 because OAPR was fully occupied with implementing the results of the repositioning exercise.

10. In 2003, the Board of Auditors carried out a review of the Office of Audit and Performance Review and made recommendations to bring MROC more closely in line with international best practices for an audit committee function. The Administrator agrees with Board recommendations and will revise the terms of reference and membership of the MROC in 2004.

II. OAPR resources

11. OAPR continues to operate in a decentralized manner, with some sections located at headquarters and others in the field. The field presence consists of three regional audit service centres and two sub-offices. A third sub-office, in the Arab States region, will be opened in 2004.

12. The results of the OAPR repositioning exercise has had significant implications for the structure of OAPR and the numbers of posts. As at 31 December 2003, OAPR had 49 authorized posts, an increase of five over the previous year. Annex I contains details of the resources and staffing activities during the year. (Refer to paragraphs 14 to 18 for more information about the repositioning exercise.)

13. Overall, the level of resources is essentially unchanged from that of the previous year.

III. OAPR initiatives to improve effectiveness and client service

New approach to audit and repositioning exercise

14. In early 2002, OAPR proposed significant revisions to its country office audit approach. Some aspects were implemented immediately and others were piloted. (Of the 42 audits conducted in 2002, eight piloted all aspects of the new approach.) In late 2002, OAPR assessed the results of the pilots and determined that while, on balance, the feedback was positive, concern nevertheless remained that the scope of the country offices audits needed to be better defined and the profile of some OAPR audit staff did not fit appropriately with the requirements of the new approach.

15. Accordingly, in late 2002 OAPR initiated a repositioning exercise to address these concerns and to ensure that, moving forward, OAPR possessed the necessary mandate, organization, and resources to maximize its value added to UNDP. The key outcomes of this exercise were described in the report for 2002 (DP/2003/21).

16. In early 2003, key recommendations – such as the elimination of Control Self Assessment workshops and discontinuing the use of public accounting firms to perform internal audits of country offices – were implemented. Also, changes were made to the OAPR organization structure to achieve the other key recommendations – strengthening investigation, quality assurance, and information and communications technology (ICT) functions, and enhancing the multidisciplinary character of audit teams. These structural changes and the internal OAPR job fair resulted in 29 posts becoming vacant during the year. Excluding the UNOPS audit section, a total of 16 posts were advertised for external recruitment in 2003 and another 13 in early 2004. (Refer to annex 1 for additional information.)

17. In mid-2003, a revised scope was introduced that reduced the number of audit areas from 15 (the number used for piloting the new approach) to 12, including country-level programme; office management; knowledge-sharing; partnerships and resource mobilization; support to United Nations coordination; advisory and advocacy services; development services; human resources administration; procurement; financial resources; general administration; and information technology and communications. The overall objective of the country office audits is to assess the extent to which resources are acquired and utilized with due regard to economy and efficiency, and whether management has put in place mechanisms to monitor and assess accurately whether programmes are meeting planned objectives.

18. An important recommendation of the repositioning team, not yet implemented, is the addition of a corporate risk assessment function. This recommendation is

consistent with the recent recommendations of the Board of Auditors that UNDP complete a comprehensive risk assessment exercise and establish a risk committee.

19. The repositioning team also recommended that OAPR continue to provide advisory services, such as facilitating workshops and advising on the implementation of changes to operating practices and procedures. To provide a proper framework for the provision of advisory services, OAPR has taken steps to ensure that its advisory services are consistent with the relevant standards as promulgated by the Institute of Internal Auditors. For example, proposed advisory engagements must be approved by the Director, OAPR, based on the engagement's potential to improve management or risks, add value, and improve the organization's operations.

IV. National execution audit strategy

20. In 2003, OAPR continued to reinforce measures initiated in 2002, such as standardizing the terms of reference for the audits, and providing offices with guidance on assessing audit firms. Overall, the quality and consistency of the national audit exercise has been greatly improved over the past four years. OAPR diligently monitors and follows up on the progress of the audit exercise – providing country offices with regular feedback on positive areas and areas for improvement. The one area that OAPR needs to continue to work on is the timeliness of the feedback. Owing to the large volumes of projects reviewed (1 660 in 2003) and difficulties in finding qualified staff, this continues to be a challenge.

21. In 2003 and continuing into 2004, OAPR is participating in the broader simplification and harmonization initiative to ensure that the four organizations – UNDP, UNFPA, WFP and UNICEF – take a consistent approach, which will also be in line with similar initiatives of the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD).

V. Coordination with United Nations system oversight offices

22. OAPR coordinates its activities with members of the larger United Nations oversight system, including the Board of Auditor, the Joint Inspection Unit (JIU), the Office of Internal Audit and Oversight Services (OIOS), and the internal audit offices of United Nations organizations. Ongoing activities include the coordination of audit activities with the Board of Auditors and OIOS, and cooperation with OIOS on investigative activities. Furthermore, OAPR participates in the annual meetings of representatives of internal audit offices of United Nations organizations and multilateral financial institutions. The most recent meeting took place in June 2003.

23. In 2003, examples of cooperation include consultations with OIOS on the audit of projects in northern Iraq. Also, on an ad hoc basis, auditors meet to discuss topics of common interest. For example, ICT auditors within OAPR, OIOS, and the UNICEF internal audit office recently met to share experiences and discuss approaches in using electronic working papers.

VI. Internal audit and related services

A. General

24. Overall, the level of internal audit and related services outputs were significantly lower from that of previous years. The number of UNDP audits/reviews issued in 2003 was 18 whereas in 2002 it was 56. Assessments of national execution of audit reports was relatively unchanged – 1 660 in 2003 compared to 1 662 in 2002. Table 1 summarizes OAPR output for 2003.

Table 1. Internal audit and oversight services provided in 2003

	In process as of 01/01/03	Projects initiated	Reports issued	In process as of 31/12/03
UNDP – Management reviews and advisory services	-	-	-	-
UNDP – Internal audits/reviews of functions/HQ units	2	-	2	-
UNDP – Internal audits/reviews of projects	-	2	1	1
UNDP – Internal audits/reviews of country offices	7	13	15	5
Subtotal: UNDP audits/review	*9*	*15*	*18*	*6*
UNDP – Assessment of national execution audit reports	-	1 660	1 660	-
UNOPS – Internal audits/reviews	3	21	21	3
Investigation cases	12	8	13	7

25. There are two main reasons for the decline in the number of UNDP audits/reviews. The first is that a large number of posts were vacant during the year as a result of the OAPR repositioning exercise and management's focus on recruiting outstanding candidates to fill the vacant positions. The second is that, effective 2003, OAPR no longer routinely contracts out internal audits of country offices. In 2002, public accounting firms conducted almost all audits of offices in the Arab States and Asia and the Pacific regions. While the contracted audits helped to increase the frequency of audit coverage, the disadvantage was that auditors performed them with little knowledge of UNDP. The cost of the audits had also increased dramatically in recent years. So while OAPR no longer routinely contracts out internal audits, OAPR will continue to contract with public accounting firms on a selective basis – such as when OAPR does not have the necessary expertise or to address short-term increases in demand for audit services.

B. Advisory services and management reviews

26. Key advisory services undertaken in 2003 included ongoing participation in the United Nations simplification and harmonization initiative and advising the UNDP ICT Decision Group.

27. With respect to the simplification and harmonization initiative, OAPR assisted in the preparation of guidelines for resource transfer modalities, including tools to assess the financial management capacity of implementing partners and common terms of reference for project audits where the projects are managed by national partners.

28. In early 2004, OAPR initiated a management review of internal controls in the UNDP Enterprise Resource Planning (ERP) software, which UNDP refers to as Atlas. This review is a high priority for UNDP because the implementation of Atlas, effective 1 January 2004, represents a major overhaul in UNDP business processes – from country offices to headquarters units. This review is in progress at the time of writing.

C. Internal audits of functions and headquarters units

29. Reports issued in 2003 included a procurement audit at UNDP headquarters and an audit of UNIFEM.

30. The objective of the procurement audit was twofold, to: (a) critically assess the UNDP procurement framework; and (b) examine procurement undertaken by headquarters units. The UNDP procurement framework consists of UNDP Financial Regulations and Rules, the Staff Rules and Regulations, administrative circulars, the Finance Manual, and the Procurement Manual.

31. A key finding was the need for the Bureau of Management (BOM) to strengthen its monitoring of procurement activity through the establishment of a database of cases reviewed by the Advisory Committee on Procurement and by developing new reports to help it to monitor procurement activity throughout UNDP. Other key observations were that: (a) resident representatives should stop signing contracts on behalf of governments, as this leads to confusion as to which organization, the government or UNDP, is legally responsible for the contract; and (b) there is ongoing confusion as to whether procurement contracts, when conducted in accordance with multi-lateral development bank rules, also need to be submitted to the UNDP Advisory Committee on Procurement. In 2004, BOM will provide clarification to country offices. A key first step was a regional workshop on procurement issues, organized by BOM in March 2004.

32. The audit of UNIFEM assessed the effectiveness and efficiency of UNIFEM operations focusing on organization, financial control, personnel and administration, as well as the underlying financial transactions for the period under review. The review was limited to headquarters operations and covered both UNIFEM core and non-core resources for which the Administrator is accountable.

33. A key area of focus for the audit was UNIFEM management of programme resources, as this area was weak in 1994 when the previous audit took place. While resource management continues to be a challenge owing to the lack of an integrated system, overall UNIFEM is adequately managing resources. Although some instances of overspending on individual trust funds were noted, almost all deficits were satisfactorily resolved by the end of the audit. Fortunately, with the implementation of the new ERP in 2004, for the first time UNIFEM will have both

budget and expenditure data in a single system, and the time and effort spent on managing resources should decrease significantly.

34. In addition, significant problems were noted in the management of human resources, including a lack of transparency in the selection of some staff members and inconsistency between UNIFEM internal staffing records and the UNDP corporate staffing records in the integrated management information system (IMIS). Most problems in the recruitment area stemmed from confusion over UNIFEM authority on human resources and its rapid growth in recent years. To solve this and other problems, the audit recommended that UNDP and UNIFEM urgently prepare a new framework to reflect better the evolution of the structures and activities of both organizations. A key aspect of this new framework is that the UNDP role as service provider should be clearly de-linked from its oversight role.

35. OAPR will work closely with UNIFEM in 2004 to ensure that the recommendations are implemented. A key action already underway is the preparation of the draft framework, which will help to clarify the roles and responsibilities for oversight.

D. Internal audits and reviews of UNDP projects

36. OAPR undertakes project audits only on an exceptional basis. In general, where UNDP directly executes projects, OAPR practice is to audit project expenditures as part of its broader audit of the office's activities. However, where project expenditures are significant or other risk factors exist, OAPR carries out special project audits, either directly or through public accounting firms. In 2003, one audit report was issued covering a UNDP-executed project in the Philippines.

37. The Philippines project was unusual in that it was a pilot for implementation of the United Nations Development Group Office Guidance Note on Joint Programming. In agreement with the country team, UNDP was appointed the Administrative Agent for the management of donor funds and provider of support services for project implementation. The scope of the audit was limited to disbursements made by UNDP through the Programme Support Coordination Team (PSCT) for the components directly executed by UNDP for the period 1 January 2002 to 30 June 2003. The major activities undertaken at the ground level pertained to relief assistance for emergency situations; capacity building on governance for peace and development communities and local institutions; provision of technical services on reproductive health, vocational training and sustainable agriculture; and conferences, workshops and advocacy activities related to peace-building.

38. This was a complex project to administer. While the auditors concluded that the expenditures were fairly stated, concern was expressed about the lack of clear operating guidelines, inadequate monitoring of project activities, and some instances of poor follow-up of cash advances to project personnel. In addition, spreadsheets were used to record project transactions, rather than a proper accounting software package. All recommendations were agreed to and some were partially implemented at the time of reporting.

39. Though not a 2003 output, a liquidation audit of the projects located in northern Iraq (referred to as the Electricity Network Rehabilitation Programme) was carried

out in December 2003. The audit was done by a public accounting firm under contract with OAPR. The audit report was issued in 2004; the key findings will be included in the internal audit report for 2004.

E. Internal audits and reviews of country offices

40. During 2003, OAPR issued a total of 15 internal audit reports of country offices. The audit reports include 346 recommendations, of which virtually all were accepted by management and are in the process of being implemented. As noted above, this is a significant decline from last year when 44 internal audit reports were issued (29 full scope and 15 limited scope). In 2002, the limited scope audits were conducted by a public accounting firm contracted by OAPR.

41. OAPR assessed the each office's performance according to a three-point rating system. (See annex II for the definitions of the new standard audit ratings and the new definition of performance.) Table 2 shows the breakdown by region and by overall rating of the 15 internal audit reports issued in 2003.

Table 2. Internal audit reports issued in 2003, by region and rating

Region	Satisfactory	Partially satisfactory	Deficient	Total
Africa	–	3	2	5
Arab States	–	1	–	1
Asia and the Pacific	1	–	–	1
Europe and the CIS	1	2	–	3
Latin America and the Caribbean	4	1	–	5
Total	6	7	2	15

42. In addition to the overall rating for each office, OAPR rates 12 audit areas. The goal of the audit area ratings is to help management to identify areas requiring immediate attention easily. For example, one of the offices audited in 2003 had an overall rating of partially satisfactory but had significant problems in its administration of human resources. The individual ratings also help OAPR to analyse audit findings across country offices – identifying common problems that require corporate attention.

43. Of the two offices rated deficient, one had significant weaknesses in almost all areas assessed. OAPR will conduct a follow-up audit in 2004 to ensure that satisfactory progress is being made to address the weaknesses. For the other office, the weaknesses were primarily in the areas of project monitoring and monitoring of financial resources. OAPR noted that the new management of the office had already made significant improvements at the time of the audit and most of the recommendations had been implemented.

44. Some countries operating in difficult circumstances need extra help in meeting challenges. For these offices, the Bureau of Management is providing support through an internal management consulting service. The management consulting team consists of a full-time coordinator and a team of part-time consultants located throughout UNDP. The overall goal of the team is to help offices to solve operational problems.

45. Many of the issues identified in the country office audit reports are similar to those identified in prior years. Key actions UNDP is taking to address the root causes of the problems include: (a) implementing Atlas; (b) increasing awareness of internal controls; and (c) conducting a comprehensive review of UNDP policies and procedures.

46. While the Bureau of Management is taking the lead in each of these three areas, its main focus in 2003 was on the first area – implementation of Atlas. As reported last year, UNDP adopted a 'fast track' strategy to Atlas implementation, requiring a heavy commitment of energy and resources. For 2004, now that wave one of Atlas has been implemented, the Bureau will focus more attention on the comprehensive review of UNDP policies and procedures, including increasing awareness in how Atlas supports the UNDP internal control framework. As resources permit, OAPR will provide advisory services to the Bureau in this regard.

47. Once fully implemented, Atlas will improve internal control in three respects. First, it will introduce system-driven controls over UNDP business processes. Second, it will enhance the ability of OAPR and other headquarters units to monitor country office operations and hold managers accountable for poor performance. Third, the accompanying re-engineering of business processes is expected to contribute to a simplification of UNDP policies and procedures, which will facilitate compliance. Throughout 2004 these benefits will start to be realized.

48. As described last year, OAPR is taking measures to help raise awareness of internal controls. Owing to a shortage of resources, however, OAPR has not yet begun to offer short workshops on internal controls. The OAPR goal is to introduce a brief workshop at the start of every audit to help offices to identify internal control issues and awareness of risk.

Summary of findings in human resources, procurement, programme, general administration and office automation

49. Generally, country office audits found that human resources were appropriately managed. In some offices there continued to be minor problems with the administration of special service agreements and service contracts, including lack of competitive recruitment and payments without evaluation of performance. To some extent these problems will be addressed through a comprehensive revision of the policy framework for contracting individuals and through training in the implementation of this new framework. The Office of Human Resources is responsible for drafting this new framework, and work is underway. Owing to the complexity of issues and the need to coordinate decisions with the rest of the United Nations system, the comprehensive policy is not likely to be finalized until 2005. Those components that do not require coordination with the rest of the United Nations system, however, will be completed in 2004.

50. As noted in last year's report, Atlas will help to address many of the recurring audit observations in the areas of human resources administration and procurement (also known as supply chain management). These recurring problems include the absence of complete, accurate data on personnel and procurement contracts and errors in national staff payroll.

51. In 2003, OAPR noted that most of the offices audited still had not fully implemented the concepts of committing officers and verifying officers, which were introduced by UNDP in 2000. As noted last year, many offices fail to delegate authority for entering into contracts properly, including vendor contracts, special service agreements, service contracts, and activities of limited duration contracts. Rather than trying to design an interim solution, however, UNDP is focusing on revising the internal control framework in light of the implementation of Atlas – to make sure there is consistency between the segregation of duties and approval levels in Atlas and the overall internal control framework.

52. For the most part, audits found that country offices conduct competitive procurement processes. However, isolated problems were noted in some offices concerning procurement under $30 000 and improper approval of waivers for procurement under $100 000. To some extent, these problems have been addressed through the introduction of a new committee in early 2003, referred to as the Contracts, Asset and Procurement Committee (CAP). All country offices audited in 2003 had implemented the new committee, whose main advantage is that it strengthens controls over the entire supply chain – from procurement to disposal.

53. Procurement remains a high-risk area for UNDP as a result of the potential for fraud and misuse of UNDP resources. While audits conducted in 2003 did not reveal any serious problems, OAPR completed three investigations relating to alleged procurement fraud. One investigation was particularly serious and is briefly described in paragraph 71. To address these risks better, selected audit staff will receive additional training in procurement so that they are better able to identify indicators of fraud. OAPR will also utilize the procurement data now available in Atlas to conduct ongoing analyses of procurement activity. Finally, OAPR will work closely with a firm contracted by a regional bureau to undertake assessments of procurement capacity of country offices in the Latin America and Caribbean region.

54. With respect to office automation, recurring issues included back-ups not kept off site; untested or lack of disaster-recovery plans; and unsecured access to server rooms. While these observations pose risks, in general there was no impact on country office operations in 2003.

Administration of UNDP executed projects

55. OAPR continues to note isolated problems with the administration of directly executed projects. The problems are the most acute in offices that operate in difficult circumstances – such as the absence of a reliable banking system. In the view of OAPR, these problems should be addressed through better corporate guidance and by improving the competencies of the administrative officers.

Problems arising from increased reliance on non-core resources

56. UNDP has evolved from a core to a multi-funded organization. In the report for 2002, OAPR noted some of the key transitional issues and actions underway to address them.

57. Cost recovery of non-core activities, while still an issue, has improved. In 2003, UNDP approved two new cost recovery policies – one relating to programme resources and the other to services provided to the United Nations system – that provide for an adequate recovery of the cost of non-core activities. With respect to the new policy on programme resources, while some donors are resisting the new cost-recovery fees mandated by the new policy, UNDP believes the policy is a sound basis for ensuring that core resources do not subsidise non-core resources. The new policy on services provided to the United Nations system stipulates universal prices for services provided by UNDP. Initially, the prices apply only to services provided to United Nations organisations but may, in the future, be extended to services provided to UNDP projects. The Bureau of Management will review the price on a periodic basis to ensure that it continues to reflect the actual cost of the service.

58. The implementation of Atlas will further improve UNDP cost recovery efforts by systematizing the recording and collection of fees. Atlas will automatically make the calculations to generate invoices and will record the related receivables.

59. Pressure to accept special donor conditions continues to be a problem for UNDP, resulting in increased transaction costs. Many donors try to impose their own oversight regime on UNDP rather than rely on the UNDP oversight regime as described in the UNDP Financial Regulations and Rules and the UNDP Programming Manual. In most cases, UNDP has successfully convinced donors to rely on its own oversight regime but there have been exceptions. UNDP welcomes requests from donors to explain its oversight regime and, if appropriate, will make changes to address donor concerns.

Unclear accountability where UNDP enters into contracts on behalf of others

60. UNDP country offices routinely provide a variety of services to United Nations organizations, such as recruitment, procurement, contract administration and banking services. While in some cases UNDP has entered into memorandums of understanding with the organizations outlining UNDP responsibility and accountability, in many cases a current memorandum does not exist. While thus far OAPR is not aware of any cases where UNDP has been held liable for the improper performance of these services, there remains a concern that these services, particularly those related to procurement and recruitment, create an 'accountability gap' where neither organization is clearly accountable for the services. OAPR discussed this issue with BOM in February 2004 and BOM agreed to follow up. Most issues relate to the contracting of individuals, and will therefore be addressed by BOM as part of its broader review of the policy framework for contracting individuals.

F. Follow-up of audit recommendations

61. In 2000, OAPR introduced a web-based tool, referred to as the Comprehensive Audit and Recommendation Database System (CARDS), to facilitate the tracking and monitoring of audit reports and recommendations. OAPR requires that all offices use CARDS to report on the implementation status of recommendations systematically. OAPR verifies these self-assessments, as a matter of course, during the subsequent audit of the office. For those offices where serious deficiencies are noted, OAPR verifies that key recommendations were implemented within a reasonable period of time, either through a follow-up audit or a desk review of supporting documentation.

62. In 2003, OAPR continued to strengthen its follow-up of audit recommendations. All country office audited in 2002 and 2003 are using CARDS to record the implementation status of recommendations.

63. For two country offices that were assessed as deficient in 2002, OAPR conducted a follow-up audit to verify the implementation status of the audit recommendations. In both cases, OAPR found that offices were making satisfactory progress in implementing recommendations.

G. Analysis of audit reports for national execution projects

64. During 2003, OAPR received and reviewed 1 660 project audit reports of national and non-governmental organization (NGO) expenditures for 2002. The audit exercise was assessed for 120 country offices, and letters, summarizing the assessment, were sent to resident representatives and copied to the regional bureaux, the Operations Support Group, and the Comptrollers Office. (In 2002, OAPR received and reviewed 1 662 project audit reports and assessed 118 country offices.)

65. OAPR assessed the audit exercise according to six criteria and assigned ratings of either satisfactory, partially satisfactory, or deficient for each criteria. The ratings were aggregated to determine an overall score. Of the 120 offices evaluated, only four were assessed as deficient, generally because the audit reports were significantly late or because the office failed to submit an action plan for following up the audit findings of the previous year. This is an improvement over the prior year when nine offices were assessed as deficient. The total expenditure of the four deficient offices was approximately $10.3 million (out of total expenditure of approximately $1.7 billion).

66. Based on its review of project audit reports, OAPR summarized the significant audit findings by project and by country office. The results were communicated to the country offices and the regional bureaux for information and follow-up. The majority of the audit findings concerned lack of competitive recruitment and procurement, poor record keeping, inadequate documentation, and non-compliance with mandatory requirements.

67. In one country, auditors highlighted findings that OAPR considers particularly serious. The auditors noted irregularities in the disbursement of funds amounting to $53 480 as well as forged signatures on documents related to these activities. At the

time of writing, OAPR was following up with the country office concerned to ensure that proper follow-up action would be taken.

H. Investigation cases

68. The OAPR Investigation Section is the main unit within UNDP tasked to carry out investigations into alleged misconduct and loss of property. Nevertheless, other units may carry out investigations where the circumstances are straight forward and do not require specialized investigative techniques. All investigations carried out by OAPR are referred to OLPS for consideration of disciplinary measures and for next steps in recovering the loss, if any. Paragraphs 69 to 71 refer only to investigations undertaken by OAPR.

69. There were 12 cases in progress at the beginning of the year, 11 of which were closed during 2003. An additional eight cases were opened during the year. These cases are summarized below:

- 1 allegation of unauthorized use and sale of UNDP country office Internet bandwidth. A preliminary investigation concluded that the allegations were false;
- 2 cases concerned the abuse of authority by senior officers and misconduct;
- 3 cases involved various types of fraud or attempted fraud;
- 1 cases involved visa fraud; and
- 1 case related to procurement or contracting irregularities.

70. Of the eight cases described above, two were closed during the year. One was referred to the Office of Legal and Procurement Support for consideration of disciplinary action, and the other was closed because a preliminary investigation concluded that the allegations were false.

71. Of the 11 cases brought forward from 2002 that were closed during the year, the most serious concerned a fraud committed by a UNDP staff member. OAPR estimates that the staff member diverted approximately $100 000 of UNDP resources to his own benefit by requiring NGOs to pay kickbacks in return for their continued participation in a micro-finance project. The staff member was summarily dismissed following the investigation.

Annex I. OAPR: Organization and resources in 2003

72. While the level of resources available to OAPR in 2003 is largely unchanged from 2002, the organization underwent significant changes during the year as a result of the repositioning exercise. A breakdown of the authorized posts, by section, is provided in the table below.

Table 1. Authorized posts as of 1 January 2004

	Total	Director	Chiefs	Auditors	Support
Office of the Director	5	1		1	3
Internal Audit Section	11	–	1	8	2
Investigation Section	5	–	1	3	1
Audit Centre – Malaysia	8	–	1	6	1
Audit Centre – Panama	5	–	1	3	1
Audit Centre – South Africa	8	–	1	6	1
Subtotal	42	1	5	27	9
UNOPS Audit Section	7	–	1	5	1
Total	49	1	6	32	10

73. Nine posts were vacant at the beginning of the year (three in the Internal Audit Section and one in the Malaysia regional audit centre, and five in the South Africa regional audit centre). Early in 2003 an additional seven posts became vacant as a result of the OAPR repositioning exercise and job fair.

74. Finding the best possible candidates to fill these vacant posts was the priority of OAPR throughout much of 2003. Of the 16 posts that were vacant in early 2003, seven were filled by the end of the year. Of the remaining nine vacant posts, candidates had either started or had been identified by 31 March 2004.

75. As reported last year, a key outcome of the repositioning exercise was the decision to create 13 new audit posts (six programme specialists, one quality assurance, six national officers) using resources previously used to pay for contracted internal audits of country offices. In its decision 2003/22 of 12 September 2003, the Executive Board approved the new audit posts. While all of these posts were vacant at the end of the year, intensive recruitment was underway as of 31 March 2004. Pending completion of the recruitment of the new posts, three individuals on activities of limited duration contracts continued to provide audit services to OAPR during the year.

76. In addition to the above, the Director's post became vacant near the end of the year and recruitment efforts are underway.

77. With respect to UNOPS, the post of Chief, became vacant with the retirement of the incumbent in August 2002 and remained vacant at the end of 2003. The functions are being performed by a staff member in the UNOPS section on an ad interim basis. In addition, two audit specialist posts were vacant at the end of the year. One vacancy resulted from the resignation of the incumbent during 2003 and was filled in April 2004. The other post was frozen in the second half of 2001 and remains so.

Annex II. Definitions of standard audit opinion ratings used by OAPR

Definition of performance

78. Within the operational audit context, performance refers to the economy, efficiency, and effectiveness of operations under management's control. Operational audits assess the extent to which resources are acquired and utilized with due regard to economy and efficiency, and whether management has put in place mechanisms to monitor accurately and assess whether programmes are meeting planned objectives. Operational audits do not report on the achievement of results.

79. Performance also refers to the manner is which activities are conducted – i.e., whether they are conducted in accordance with UNDP values. UNDP values encompass the notions of prudence and probity, as well as the necessity of taking acceptable risks.

Rating	Definition
Satisfactory	In general, controls were in place to ensure that operations were economic, efficient and effective; and that activities were conducted with due regard to UNDP values. Any weaknesses identified were not significant enough to compromise the overall performance and control environment. The range of corrective actions required by management is moderate.
Partially satisfactory	The majority of key controls were applied. However, some significant control weaknesses were identified. Timely corrective action by management would be required to correct these weaknesses.
Deficient	Control weaknesses identified were widespread or were significant enough to have a negative impact on performance. Management needs to take immediate corrective action to improve the control environment.